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Mark Borman

University of Sydney, m.borman@econ.usyd.edu.au

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# Improving understanding of the competencies required of Business Process Outsourcing (BPO) suppliers: The case of customer management services in Australia

**Mark Borman**

University of Sydney

m.borman@econ.usyd.edu.au

## ABSTRACT

Information Technology enabled Business Process Outsourcing (BPO) is a growing phenomenon yet little research has been conducted to understand what competencies are required of suppliers. A case study of outsourced customer management services in Australia seeks to determine whether the set of competencies previously identified by Feeny et al (2003) is relevant and complete. Initial results provide some suggestions for refinement while indicating that the competencies sought from suppliers may be remarkably consistent across sectors – at least for customer management.

## Keywords

Business process outsourcing, competencies, customer management

## INTRODUCTION

Business Process Outsourcing (BPO) occurs where a supplier takes over responsibility for one or more of an organisation's business processes. While academic research specifically focused on BPO is emerging (see for example Feeny et al, 2003 and Ramachandran and Voleti, 2004) the field appears somewhat neglected compared to IT outsourcing. Yet Codling and Miller (2004) suggest that, for the UK at least, BPO will represent a market 75% as large as IT outsourcing by 2007. Furthermore Technology Partners (2004) suggest that increasingly BPO and IT outsourcing will be bundled with "*the business process ruling the decision making*" (p1).

Some research in the BPO and IT outsourcing domain has been conducted with regard to competencies (Lacity et al, 1996 for example). However it has focused primarily on the client perspective – the competencies a client requires to manage its outsourcing relationship effectively. Saunders et al (1997), for example, highlight the role of an effective contract, Alborz et al (2004) emphasise the *process* of constructing an effective relationship and Lacity et al (1996) include the ability to assess changing needs. The supplier perspective has largely been neglected. There are of course exceptions. Ramachandran and Voleti (2004) for example identify the need for a combination of business development and operational capabilities. More comprehensive is the work of Feeny et al (2003) which identified seven critical business competencies for BPO providers.

The objective, and contribution, of the current research is improve understanding of the competencies required of BPO suppliers. The remainder of the paper comprises three sections. The first outlines the set of competencies required of BPO suppliers as identified by Feeny et al (2003). The second presents the findings to date of an empirical study of outsourced customer management in Australia to assess the relevance and completeness of that set. The final section discusses the implications and limitations of the current work and outlines the future research agenda.

## SUPPLIER COMPETENCIES FOR BPO

Feeny et al (2003) identified seven critical business competencies for BPO providers:

- People – the ability to draw upon the commitment, energy and talents of staff
- Service - the ability to regard end users as customers, understand what good service represents and deliver it
- Process – the ability to improve existing business processes within client companies
- Technology – the provision of a technology platform that is core to the service delivered

- Environment – the ability to develop an effective working environment that reinforces the distinctiveness of the provider
- Sourcing – expertise in procurement and an ability to leverage aggregate purchasing power
- Implementation – the ability to implement a BPO initiative and deliver it over time

The objective here is to begin the process of determining whether these competencies are more widely generalisable.

## METHODOLOGY

The case-study method, adopted here, is well established especially where research and theory are at a formative stage and a phenomenon is not well understood (Benbasat et al, 1987).

To date six cases have been developed; three supply side and three client side. Suppliers were selected on the basis of being the largest providers of outsourced call centre services in Australia (all operated more than 1500 seats). Together they represent over 50% of the market. Tas and Sunder (2004) suggest that BPO is particularly common in the financial services, utilities and telecommunications industries. Clients were selected to ensure coverage across these areas.

Interviews were sought with two stakeholders in each organisation to provide a degree of confidence in the answers through triangulation<sup>1</sup>. Interviews, based upon a semi-structured interview protocol, were between one and two hours in duration.

In line with the methodology presented by Eisenhardt (1989) interview material was reviewed to determine correspondence with the set of competencies proposed by Feeny et al (2003) thus enabling its potential usefulness as a decision making guide to be assessed.

## ANALYSIS OF BPO COMPETENCY REQUIREMENTS

Interviewees were asked to identify the competencies that were sought from suppliers. Upon review many mapped to those proposed by Feeny et al (2003) and helped to elaborate on them. Relationship management however appears to represent a potential addition.

### People

The ability to motivate and retain staff was seen as important by clients and cited by one supplier as a significant differentiator for them. Clients recognise though that they are managing a conundrum in this respect. They appreciate that the outsourced customer management staff are the first – and sometimes only – point of contact with customers and yet want to minimise cost. Client two stressed the importance of suppliers *“treating employees well since these are ultimately the people who deliver the service”* while also recognising that *“we spend time training staff, ensuring they are well paid with good superannuation and holidays within a value driven, community and family oriented working environment.. [providers] don’t do that”*

Sources of motivation varied. One supplier was heavily focused on awards. Another “carved up contracts” making a proportion of each month’s gross margin available to call centre staff subject to them hitting predefined targets. One client sought to motivate its supplier’s staff by providing opportunities for them to perform alternative tasks such as promotional work.

### Service

Of particular importance appeared to be the ability of a supplier to replicate the client’s core culture or values. The key differentiator of culture was seen to be “flair”. Numerous steps are taken by suppliers to ensure that flair can be captured and replicated – from recruitment, through training to regular client contact.

*“[we] work with the client to spell out their culture.. often difficult to know what it is especially where it is represented by a person. We sit down with them and determine what it means and then instil it into activities, behaviours and quality”* Supplier 2

Suppliers also suggested that capturing the culture of a client was often aided by the transfer of employees from client to supplier

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<sup>1</sup> In two organisations only one person could be interviewed

*“who bring their understanding [of the client] across with them” Supplier 1.*

### Process

The process aspects of customer management appear to be separable into two components: *what is done* seems generally to be established by the client, *how it is done* by the service provider. The ability to improve existing business specific processes appeared a minor consideration in most cases.

*“we have an internal team that writes all processes and procedures and regularly audit suppliers to make sure that they are up to date in the ones they are using” Client 2*

Clients suggested that it is unrealistic to expect a BPO provider to be able to improve a problematic process and that of more importance was the ability to operate and continually improve a call centre ie how calls are handled.

*“we expected outsourcing to solve problems in the past.. but you have to know what you want and how to do it [in one case] problems were exacerbated by having a third party and we ended up bringing it back in house” Client 3*

### Technology

With technology it would appear useful to make a distinction between *business* and *delivery* technology. Business technology relates to the core systems used by an organisation – provisioning and activation systems for example in the telecommunications sector. In the majority of cases these are retained under the control of the client and access is provided to the supplier. Delivery technology refers to the technology used to operate a call centre – including telecommunications switches, call routers, reporting software. In the majority of cases this was provided by the outsourced call centre operator.

It was suggested that suppliers need to continually upgrade their technology migrating to lower cost platforms – automated and database driven response systems for example. Client 1 cited an example where they had transitioned business from one supplier to another because the incumbent, while effective at providing the service based on the existing technology platform, had not sought to develop or update it at all. Another example provided by Supplier 2 related to how they had reduced the number of call centre seats required by a client from 150 to 50 over a four year period by moving to self service options.

### Environment

In all cases it was seen as important for the environment to reflect and reinforce who the client was. Location was also seen as important – from the perspective of availability of and accessibility for labour. City locations were seen as providing a large labour pool but with high costs and retention difficulties. In country locations staff are viewed as easier to retain but less career oriented and motivated. For some clients proximity to their supplier was seen as important whereas others did not.

*“[being located in the same building] gives us a heads up of issues in the marketplace because of proximity” Client 2*

*“being there doesn’t tell you that much.. we get feedback through customer mystery shopping” Client 3*

The key distinguishing factor appeared to be the length of time they had been outsourcing for. Those clients who were new to outsourcing were most concerned about proximity.

### Sourcing

Sourcing expertise was typically not seen as important by clients or suppliers. Suppliers recognised however that smaller clients could benefit from gaining access to capabilities and functionality that would otherwise be prohibitively expensive.

### Implementation

The ability to successfully implement a BPO initiative was seen as critical by clients and suppliers. Dedicated implementation teams and processes were established by both sides of the transaction. Seen as equally important was effective ongoing management of the activity and in particular effective reporting. Performance was monitored using multiple measures often based on statistical process control techniques.

*“Critical success factors – better customer service, lower costs, innovation etc – need to be clearly defined and measurable to know if [they are] achieved” Client 3*

One competency repeatedly mentioned by interviewees but not considered by Feeny et al (2003)<sup>2</sup> was relationship management.

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<sup>2</sup> But considered in depth in other outsourcing research

## Relationship management

To manage relationships all suppliers had established multiple levels of communication with clients typically encompassing contacts at director, operational (day-to-day) and relationship level. This was seen as beneficial by clients who had also often established their own dedicated internal function with responsibility for managing outsourced services – though this was at an overarching, rather than individual supplier, level.

The development of trust was seen as particularly critical – especially given a provider will often be working for a number of competitors

*“Confidentiality is an imperative especially for outbound campaigns.. [the market] is very competitive and we need an edge in terms of the time before an offer is copied” Client 1*

From a competency perspective the cases offer some potential refinements and extensions to the work of Feeny et al (2003).

With regard to process and technology the research confirms their importance but also suggests that the focus be refined. In each case there is evidence of a distinction between business activity specific competencies and those associated with customer management. The former relate to what should be done and the latter to how it should be delivered.

The cases provide a contradictory perspective to one aspect of Feeny et al's (2004) view regarding service. Instead of establishing a separate identity interviewees suggested that providers rather need to replicate that of the client. In part this finding might be due to the different contexts of the research. The work of Feeny et al (2004) focuses primarily on service delivery to internal customers while here it is to the end customers of the organisation.

The cases also suggest that sourcing skills may not be a widespread requirement and that relationship management would be a useful addition.

## IMPLICATIONS, LIMITATIONS AND FUTURE RESEARCH

From a research perspective the paper has moved the work of Feeny et al (2003) beyond a single case. It suggests that there is considerable homogeneity regarding what is sought from customer management outsourcing across organisations and that there is generally close alignment between the views of clients and suppliers. From a practitioner perspective, the research suggests that organisations embarking on BPO will be able to learn from the approaches adopted by others. For suppliers, the identification of a common set of competencies required by clients regardless of sector, signals a ready opportunity for expansion across the economy.

One weakness of the research is that it is focused on one BPO activity – customer management – in one location – Australia. In addition it has considered only large suppliers and clients in the private sector. Future research across a broader range of organisations, activities and locations is required. It is possible, for example, that customer management is not representative of BPO more generally due to it serving as the entry point to a heterogeneous group of activities rather than as a self contained activity in its own right.

The research as it stands has also accepted one dimensional, unquantified, assessments of the competencies and the success of the outsourcing initiatives. It would be useful to combine a comprehensive satisfaction instrument (such as that used by Sengupta and Zviran, 1997 or Jiang et al, 2002) with quantified measures of each competence to investigate in greater detail the principal relationships that exist.

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